


BEFORE
THE PUBLIC SERVICE COMMISSION OF
SOUTH CAROLINA
DOCKET NO. 2003-7-W - ORDER NO. 2003-520

AUGUST 29, 2003

IN RE:	Application of Dowd Water Systems, Inc. for)	ORDER APPROVING
	Approval of Meter-Based Distribution Fees)	METER-BASED RATES
	for Stephenson Lakes Water System.)	AND CHARGES



I. INTRODUCTION

This matter comes before the Public Service Commission of South Carolina (the Commission) on the request of Dowd Water Systems, Inc. (Dowd or the Company) for approval of a passthrough to its customers of the rate Dowd is charged subject to a bulk water agreement between it and the Town of Chapin, plus a reasonable surcharge for expenses of maintenance and administration. The Application also requests approval of water distribution fees and account set-up and disconnect/reconnect fees. Finally the Application requests that this rate schedule be made adjustable so as to incorporate future wholesale rate changes as set by the Town of Chapin. The Company is presently providing water service to 25 customers in the Stephenson Lakes Subdivision, located in Lexington County, South Carolina.

Pursuant to the instructions of the Commission's Executive Director, the Company published a Notice of Filing, one time, in newspapers of general circulation in the Company's service area, and served a copy of said Notice on all affected customers in the service area. The Company furnished affidavits to show that it had complied with the

instructions of the Executive Director. A Petition to Intervene was filed by Forrest Derrick.

A hearing was held on August 6, 2003 at 10:30 AM in the offices of the Commission. The Honorable Mignon Clyburn, Chair, presided. Dowd Water Systems, Inc. was represented by David W. Knight, Esquire. Dowd presented the testimony of Sue Dowd, President of the Company. The Intervenor Forrest Derrick represented himself. The Commission Staff (the Staff) was represented by F. David Butler, General Counsel. The Staff presented the testimony of Vivian B. Dowdy and William O. Richardson.

II. SUMMARY OF TESTIMONY

Sue Dowd testified on behalf of the Company in support of new meter-based rates and charges for the Stephenson Lakes Subdivision. Mrs. Dowd proposes a monthly commodity rate made up of the \$3.50 Chapin wholesale charge pass-through, a \$1.00 variable capital reserve fund, and \$2.25 in state and federal income taxes, for a total proposed commodity rate of \$6.75 per thousand gallons of water. The \$1.00 variable capital reserve fund is related to costs based on increasing volume. Mrs. Dowd stated that such a fund, along with \$1.00 per month for a fixed capital reserve fund was recommended by the South Carolina Department of Health and Environmental Control (DHEC) in order to be able to pay for the “inevitable repairs to the 30 year old system.”

Mrs. Dowd also testified regarding her proposed base rate. She proposes a \$2.64 per month charge for her master-meter belonging to the Town of Chapin, and \$8.81 per month for the recoupment fee to the Town of Chapin for the Amick’s Ferry Water System. Mrs. Dowd also requests \$4.20 per month as a contract operator fee, since she

has had to use EA Services to perform Certified Operator services on a contract basis. Further, the Company, through Mrs. Dowd, is requesting a monthly billing/administrative fee of \$13.35. This includes reimbursement of the owner's expenses, including expense for a part of the use of the owner's home for the business, office supplies, mileage, business use of the owner's car, grass cutting, and a salary for operating the company. Insurance and property taxes are also included in the base rate at a rate of \$1.75 per month, as well as rate case expenses at \$1.25 per month. The total proposed base rate is \$33.00 per month.

In addition to these rates, Dowd is seeking approval of a \$25 new customer account charge, and disconnect and reconnect charges of \$90 each.

The Commission Staff presented the testimony of Vivian B. Dowdy. The Staff proposed thirteen (13) adjustments to revenue and expenses. First, Staff, through Mrs. Dowdy, proposes to remove flat rate based revenues, since the Company is seeking a meter-based water distribution charge. Second, the Staff proposes to disallow miscellaneous revenue collected by the Company. This fee collected by the Company was used to offset the expenses for stamps, envelopes, and other things. However, this fee has not been approved by the Commission. Each customer was charged \$1 by the Company. Third, the Staff proposes to remove the DHEC testing fees of \$1,425 collected from its customers and the \$1,425 testing expenses paid to DHEC. This fee is not regulated by the Commission, but is a passthrough fee imposed by DHEC. Fourth, Staff proposes to disallow one-half of a \$354 expense paid to BellSouth Telephone Company. This telephone number is listed on the customers' bill, but is used for both personal use

and water company business. Stephenson Lakes' allocated portion of this expense is \$78. The allocation is based on the number of customers served by Dowd Water Systems, Inc.

Staff also proposes to remove electric expenses paid to Mid-Carolina Electric Cooperative associated with Stephenson Lakes, amortize rate case expenses over three years, remove loan payments from expenses, and remove certain monies paid to the owner of the Company for the reimbursement of a loan used to open the Company's checking account. In addition, Staff further proposes to annualize manager/owner operator fees, remove expenses associated with the Bulk Water Supply Agreement between the Town of Chapin and Stephenson Lakes, pursuant to the Consent Order in Docket No. 2001-156-W. Lastly, Staff proposes to decrease Operating and Maintenance (O&M) expenses for the installation of a pump in Stephenson Lakes, proposes to increase O&M expenses for the bulk water rate paid to the Town of Chapin, and, finally, proposes to show the amount of revenue needed to generate an operating margin of 0.00%, including a manager/owner operator fee.

William O. Richardson of the Commission's Utilities Department also testified. Richardson discussed, *inter alia*, the proposed capital reserve fund included in the Company's Application. Richardson does not recommend allowance of the fund at this time, because all of the water used in the system is purchased from the Town of Chapin instead of having to be produced from the Company's wells. Richardson opined that this should eliminate most of the equipment that would have to be replaced more often such as pumps, motors, and tanks. The Company's Application requested a fixed capital reserve fund of \$1.00 per month per customer and a variable capital reserve fund of \$1.00

per 1,000 gallons usage. If approved, Richardson notes that a customer using 9,000 gallons of water per month would pay a total of \$10.00 to the capital reserve fund. This \$10.00 paid to the capital reserve fund would amount to 25% of the base charge, which Richardson believes is excessive, due to the limited use that this fund would receive.

Richardson recommended that the commodity charge from the Town of Chapin flow through and be shown as a separate line item on the customer's bill. Calculating and listing the commodity charge and the base rate charge separately will, according to Richardson, allow the Company to recover the entire cost of water from the Town of Chapin. This will include water for the DHEC required flushing program, as well as unaccounted for water. Richardson noted that the normal amount of unaccounted for water for the system is not known. The Company has not begun its quarterly DHEC required flushing of its water line. Richardson demonstrated his proposed calculation of the passthrough commodity charge with an example. If the master meter at Stephenson Lakes showed 100,000 gallons per month of water usage from the Town of Chapin, the commodity rate of \$3.50 per 1,000 gallons would be applied to yield a bill from Chapin of \$350.00. If Sue Dowd reads the individual meters of her customers on the same day as the master meter is read, and comes up with 90,000 gallons usage for the same month, the \$350.00 Chapin bill would be divided by 90 to arrive at a commodity rate of \$3.88 per 1,000 gallons of usage to be passed on to each water customer of Stephenson Lakes for the month. Richardson testified that if this methodology was utilized, the Company would be reimbursed for the full water bill from Chapin, which would include unaccounted for water.

The Commission Staff, through Mr. Richardson, did make an attempt to get an estimate of unaccounted for water, since the master meter was installed in November 2002 and meters were installed at the customer's residences between November 2002 and February 2003. Staff calculated an unaccounted for water rate of 14.1%. However, Richardson noted that this percentage will not be indicative of the normal amount of unaccounted for water, since all of this water has been used for flushing during the construction phase. To ensure an accurate accounting for the unaccounted for water, Richardson recommended a twelve month review of meter read water usage in the Stephenson Lakes subdivision. After that time, the Commission could reexamine the issue of unaccounted for water and whether Dowd should be reimbursed for the full amount of the Chapin wholesale water bill, according to Richardson.

III. FINDINGS OF FACT

1. Dowd Water Systems, Inc. is a water utility operating under the jurisdiction of the Commission. Dowd provides water service to 25 customers in the Stephenson Lakes Subdivision, located in Lexington County, South Carolina.

Dowd is seeking approval of the following:

- (a) A passthrough to its customers of the \$3.50 per 1,000 gallons per month wholesale rate for water that Dowd is being charged, subject to a bulk water agreement between it and the Town of Chapin;
- (b) A surcharge for expenses of maintenance and administration;
- (c) A water distribution fee of \$33.00 per month;
- (d) An account set-up fee \$25.00; and

(e) Disconnect and reconnect fees of \$90.00 each.

2. We decline to allow the \$1.00 per month charge for the variable capital reserve fund and the \$1.00 per month charge for the fixed capital reserve fund. As per Staff witness Richardson's testimony, the water is being purchased from the Town of Chapin, therefore, most of the equipment that would have to be replaced in the usual water system would not have to be replaced. Further, the capital reserve fund amounts make up an unjustifiably high percentage of the total proposed rate.

3. Removal of the \$1.00 monthly fixed capital reserve fund will then allow a \$32.00 water distribution charge per month per customer.

4. Yearly revenue for the Company may then be calculated at \$9,600, which may be calculated by multiplying \$32 by 25 customers and then by 12 months.

5. Several of the Staff's adjustments are appropriate and should be adopted herein:

- a) Removal of the DHEC testing fee of \$1,425 is appropriate, since the fee is not regulated by the Commission and is merely a passthrough.
- b) Staff's disallowance of the miscellaneous revenue collected by the Company is reasonable, since the \$1.00 monthly customer fee for stamps, envelopes, and other things had not been approved.
- c) Removal of taxes other than income is appropriate.

6. We also believe that an adjustment should be made for certain O&M expenses as proposed by Mrs. Dowd. These expenses consist of (1) the monthly master

meter rate of \$2.64 that the Town of Chapin charges Stephenson Lakes and (2) the monthly recoupment fee of \$8.81 that the Town of Chapin charges Stephenson Lakes. Multiplying the total of these figures (\$11.45) by 25 customers and then by 12 months equals a \$3,435 adjustment.

7. Further, we hold that certain General and Administrative expenses as proposed by Mrs. Dowd should be recognized. These consist of (1) a \$4.20 monthly fee for the contract operator and supplies; (2) a \$13.35 monthly billing and administration fee; (3) a \$1.75 monthly fee for insurance and property taxes and (4) a monthly fee of \$1.25 for amortized rate case expenses. Multiplying the total of these expenses (\$20.55) by 25 customers and then by 12 months equals a \$6,165 adjustment.

8. We also hold that Dowd may collect for all water purchased from Chapin and distributed to its customers at this time, including any unaccounted for water. However, we do hold that the Company shall monitor water usage data for the period September 1, 2003 to August 31, 2004 to see if the Company's actual unaccounted for water mandates adjustment to rates (either base or commodity rates) at a later time.

9. The Company testimony supports the granting of a 0% operating margin for water operations, which we adopt.

IV. CONCLUSIONS OF LAW

1. The Company's operations in South Carolina are subject to the jurisdiction of the Commission pursuant to S.C. Code Ann. Section 58-5-10, et seq. (Supp. 2002).

2. The Commission concludes that the combination of Staff's adjustments and Company proposals discussed above are proper, pursuant to the reasoning stated above.

3. There is no statutory authority prescribing the method which this Commission must utilize to determine the lawfulness of the rate of a public utility. For a water utility whose rate base has been substantially reduced by customer donations, tap fees, contributions in aid to construction, and book value in excess of investment, the Commission may decide to use the "operating ratio," and/or "operating margin" method for determining just and reasonable rates. The operating ratio is the percentage obtained by dividing total operating expenses by operating revenues; the operating margin is determined by dividing the total operating income for return by the total operating revenues of the utility. The Commission concludes that the use of the operating margin is appropriate in this case.

4. The Commission is mindful of the need to balance the respective interests of the Company and of the consumer. It is incumbent upon this Commission to consider not only the revenue requirement of the Company, but also the proposed price for the water service, the quality of service, and the effect of the proposed rates upon the consumers.

5. Based upon all of these considerations, the Commission determines that the Company should be allowed a 0% operating margin. We would note that a salary for the President of the Company is included in the administrative monthly fee proposed by

the Company. In order to arrive at the 0% operating margin, the Company will need to produce \$9,600 in total operating revenues. This may be shown as follows:

TABLE A

OPERATING MARGIN

Operating Revenues	\$9,600
Operating Expenses	<u>9,600</u>
Net Income for Return	0
Operating Margin	0%

6. In order to earn the proposed operating margin, we hold that the Company should be allowed to earn its revenue requirements as follows:

Monthly Base Charge:	\$32.00
Commodity Charge:	\$ 3.50 per 1,000 gallons
(subject to Staff's passthrough methodology which incorporates cost recovery for unaccounted for water)	
New Customer	
Account Charge:	\$25.00
Disconnect Charge:	\$90.00
Reconnect Charge:	\$90.00

7. As stated above, Staff needs to monitor water usage data for the period September 1, 2003 to August 31, 2004 to see if the Company's actual unaccounted for water mandates adjustment to rates (either base or commodity rates). A follow-up hearing shall be held at some point after August 31, 2004 to consider this matter.

8. Further, although we have granted rates that include a salary for Mrs. Dowd, we hold that Mrs. Dowd shall keep time sheets detailing her work activities for the Company, so that her work activities may be monitored if appropriate.

9. With further regard to the commodity rate, we hold that Dowd can adopt any future wholesale commodity rates for water originating from the Town of Chapin, but subject to the same Staff methodology as described above.

IT IS THEREFORE ORDERED THAT:

1. A monthly base charge of \$32.00 is approved. Also, a commodity charge of \$3.50 per thousand gallons is approved, subject to the Richardson methodology as described above for the recovery of all charges from the Town of Chapin. If the Town of Chapin changes its wholesale rate for water, Dowd can pass it through to its retail water customers, again using the Richardson methodology if necessary. Dowd should read her retail customers' meters on the same day, or as close to the same day as possible, to the day that the Town of Chapin reads the wholesale master meter, in order to effectuate this methodology. Dowd shall notify the Commission within ten (10) days of any change in the wholesale rate for water by the Town of Chapin.

2. The new customer account set-up fee of \$25.00 is approved. The \$90 disconnect fee and the \$90 reconnect fee were approved in Order No. 2001-747, and the Company may continue to charge these fees.

3. The schedule of rates and charges attached hereto as Appendix A is hereby approved for service rendered on or after September 1, 2003. The schedule is deemed to be filed with the Commission, pursuant to S.C. Code Ann. Section 58-5-240 (Supp. 2002).

4. The Company shall maintain its books and records in accordance with the NARUC Uniform System of Accounts as adopted by the Commission.

5. Dowd shall monitor its water usage for the period September 1, 2003 to August 31, 2004 to determine if the Company's unaccounted for water mandates a change to the Company's base rate or commodity rate. A follow-up hearing shall be held at some time after August 31, 2004 to consider this matter.

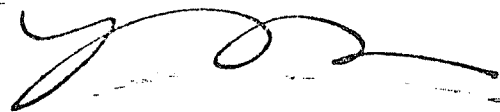
6. We further hold that Mrs. Dowd shall keep detailed time sheets, detailing her work for the Company, so that her work activities can be monitored if appropriate.

7. The Company shall notify each customer of the customer's change in rates with the first bill that includes the new rates made subject to this Order.

8. If the approved schedule is not placed in effect within three (3) months after the date of this Order, the approved schedule shall not be charged without written permission of the Commission.

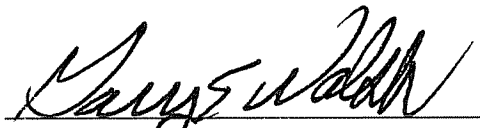
9. This Order shall remain in full force and effect until further Order of the Commission.

BY ORDER OF THE COMMISSION:



Mignon L. Clyburn
Chairman

ATTEST:



Gary E. Walsh
Executive Director

(SEAL)

APPENDIX A

**DOWD WATER SYSTEMS, INC.
77 DOWD ROAD
PROSPERITY, S. C. 29127
803-345-2285**

**FILED PURSUANT TO:
DOCKET NO. 2003-7-W
ORDER NO. 2003-520
EFFECTIVE DATE: SEPTEMBER 1, 2003**

WATER SERVICE

FOR

STEPHENSON LAKES SUBDIVISION

1. MONTHLY CHARGE

- a. Residential Basic Facilities Charge-----\$32.00
- b. Commodity charge-----\$3.50 per 1,000 gallons*

***Use PSC Staff methodology for pass through of commodity charge as described in Order. The monthly wholesale water bill from Chapin is divided by the number of gallons of monthly retail usage, which has been divided by 1,000. The quotient is the commodity rate for that month. The methodology assumes that the Town of Chapin master meter and the customer's retail meters have been read on the same day, or as close to the same day as possible.**

2. NONRECURRING CHARGES

- a. New Customer Set-Up-----\$25.00
- b. Disconnect Fee-----\$90.00**
- c. Reconnect Fee-----\$90.00**

****\$75.00 contract cost, plus \$15.00 mailings and travel by owner**